

Message Text

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E. O. 11652: GDS

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SUBJECT: NIXON- POMPIDOU SUMMIT: AGENDA ITEM II(C) - PREFERENCES

REF: A. PARIS 11891 B. PARIS 11892 C. PARIS 11162 D. PARIS 7188

1. AS PROMISED REFTELS A AND B FOLLOWING IS FURTHER DISCUSSION OF AGENDA ITEMS II(C) " REVERSE PREFERENCES."

2. AS WE HAVE REPORTED IN EARLIER MESSAGES (REFTELS), FRANCE IS THE PRINCIPAL OBSTACLE TO OUR ATTEMPT TO PERSUADE THE EC TO FOREGO REVERSE PREFERENCES IN ITS TRADING ARRANGEMENTS WITH MEDITERRANEAN AND AFRICAN COUNTRIES. FRENCH ARE CONVINCED THAT FOR HISTORIC, POLITICAL, AND CULTURAL REASONS EUROPE IN GENERAL AND FRANCE IN PARTICULAR MUST MAINTAIN CLOSE TIES WITH THESE COUNTRIES, INCLUDING SPECIAL COMMERCIAL RELATIONS. GOF BELIEVES THAT THESE SPECIAL COMMERCIAL RELATIONS MUST INCLUDE PROVISIONS FOR REVERSE PREFERENCES. IN CASE OF CERTAIN MEDITERRANEAN COUNTRIES, E. G. SPAIN, ISRAEL, ETC. GOF INSISTS THAT THEIR LEVEL OF ECONOMIC DEVELOPMENT IS HIGH ENOUGH THAT THEY CAN AND SHOULD OFFER MEANINGFUL TRADE CONCESSIONS IN RETURN FOR PREFERENTIAL ACCESS TO EUROPEAN MARKETS.

3. THE FRENCH POSITION ON REVERSE PREFERENCES IN THE EC' S AGREEMENTS WITH OTHER MEDITERRANEAN COUNTRIES AND THE ASSOCIATED AND ASSOCIABLE COUNTRIES IS MORE COMPLEX. FRENCH OFFICIALS NOW CONCEDE THAT PREFERENTIAL TARIFF TREATMENT IN THESE COUNTRIES IS OF LITTLE PRACTICAL VALUE TO EUROPEAN EXPORTERS AND NO LONGER ARGUE THAT REVERSE PREFERENCES ARE POLITICALLY ESSENTIAL IN
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OBTAINING FRENCH INDUSTRY' S SUPPORT FOR THE EC' S AGREEMENTS WITH

THESE COUNTRIES. THE FRENCH DO INSIST, HOWEVER, THAT RECIPROCITY (REVERSE PREFERENCES) IS AN INDISPENSABLE ELEMENT IN THE FREE TRADE AREA APPROACH WHICH THEY ARGUE PROVIDES THE ONLY LEGALLY ACCEPTABLE FRAMEWORK WITHIN WHICH THE EC CAN OFFER SPECIAL PREFERENCES TO THESE COUNTRIES (PARA' S 2 & 3 REF C). SPECIAL PREFERENCES ARE THE ASPECT OF THE AGREEMENTS TO WHICH THE FRENCH GIVE THE GREATEST IMPORTANCE AND THE ONE WHICH THEY FEAR IS THE REAL US TARGET (I. E. TO SUBSUME PREFERENCES UNDER GENERALIZED PREFERENCES). AS WE EXPLAINED IN REFTELS, THE FRENCH CONSIDER SPECIAL PREFERENCES AS A VERY IMPORTANT ELEMENT IN THE MAINTENANCE OF FRANCE' S SPECIAL RELATIONSHIPS WITH ITS FOR COLONIES.

4. WE HAVE CONVINCED THE FRENCH OF THE SERIOUSNESS WITH WHICH WE VIEW THE PROBLEM OF REVERSE PREFERENCES. THEY DO, HOWEVER, PROTEST THAT IN VIEW OF THE VERY SMALL TRADE EFFECTS OF THESE AGREEMENTS, WE HAVE GIVEN THE REVERSE PREFERENCES ISSUE AN IMPORTANCE WHICH IT DOES NOT MERIT. IN ANY CASE, DESPITE THE FIRMFNESS WITH WHICH IT DEFENDS THE FREE TRADE AREA CONCEPT, THE GOF HAS SHOWN A DESIRE TO AVOID A DIRECT CONFRONTATION WITH THE US OVER REVERSE PREFERENCES. FOR EXAMPLE, THE FRENCH ARE NOW WILLING TO STATE CLEARLY THAT THE LDC WOULD BE FREE TO EXTEND TO THIRD COUNTRIES THE SAME TARIFF CONCESSIONS THEY GIVE THE EC WITHOUT RISK OF LOSING ANY BENEFITS RECEIVED FROM THE EC OR FRANCE. IN ADDITION, THERE APPEARS TO BE SOME WILLINGNESS WITHIN THE GOF TO EXAMINE THE SO- CALLED FISCAL DUTY APPROACH AS A WAY OUT OF THE PRESENT IMPASSE WITH THE US (SEE PARA 5, REF C).

WHILE WE REALIZE THAT THE PROBLEM OF REVERSE PREFERENCES SHOULD NOT BE DISCUSSED IN ANY DETAIL WITH PRESIDENT POMPIDOU, WE DO RECOMMEND THAT PRESIDENT NIXON TAKE ADVANTAGE OF THE SUMMIT MEETING TO EMPHASIZE THE POLITICAL IMPORTANCE OF MAKING PROGRESS IN RESOLVING THIS ISSUE. WE SUGGEST THAT PRESIDENT NIXON STRESS THE FOLLOWING POINTS:

(A) WE SUPPORT THE EC' S DESIRE TO MAINTAIN CLOSE TIES WITH THE COUNTRIES OF THE MEDITERRANEAN AND AFRICA.

(B) BUT VIEWED FROM THE US, THE APPARENTLY UNLIMITED EXPANSION OF THE EC' S NETWORK OF SPECIAL COMMERCIAL ARRANGEMENTS WITH THIRD COUNTRIES SEEMS AIMED AT THE CONSTRUCTION OF A VAST

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PREFERENTIAL TRADING BLOC.

(C) REVERSE PREFERENCES CAUSE THE ADMINISTRATION SERIOUS PROBLEMS IN ITS EFFORT TO MAINTAIN PUBLIC AND CONGRESSIONAL SUPPORT FOR A POLICY OF CLOSE COOPERATION WITH EUROPE, AND COULD AFFECT THE TRADE BILL.

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